CHAPTER 1

THE CASE FOR COLLUSION

Bailed Out By Russia

1987–2014

President Donald Trump has attempted to distance himself from allegations of collusion by asserting that he has no business interests in Russia. That's not for lack of trying: Trump's efforts to establish a hotel in Moscow go back at least to 1987, when, according to his book *The Art of the Deal*, he discussed the possibility with the Soviet ambassador Yuri Dubinin. But the questions regarding the Trump campaign's collusion with the Russian government go beyond whether Trump has business dealings with Russia. It is just as important, if not more, to understand the many ways that Russia has business with Donald Trump.

That Kremlin-linked entities invested significantly in Trump's properties over the years is not inherently nefarious. Since the fall of the Soviet Union, wealthy Russians have invested heavily in real estate in the West, while Americans were in turn encouraged to invest in Russia. However, in the context of a president under several investigations for his connections to the Kremlin, Russia's outsize role in Trump's reemergence from financial tribulations that nearly destroyed his real estate empire merit additional attention. What emerges is the story of a man indebted to Russia through the oligarchs that President Vladimir Putin helped create and now controls.

Upon taking office, Trump superficially distanced himself from the Trump Organization, ceding day-to-day control to his sons Donald Trump Jr. and Eric Trump. However, he still owns and profits from the company, which gives him an ongoing stake in maintaining the relationships that make his company profitable, and leaked internal emails suggest he retains more control over the Trump Organization's operations than he publicly acknowledges. Moreover, the relationships and transactions described below occurred long before his political career, at a time when both internal and external sources have described him as exerting almost unilateral control over the organization.

Individually and collectively, these relationships form the underpinning of the Russia scandal. The Kremlin has a long history of using compromising information, or kompromat, to exert leverage over businesspeople and politicians, both in Russia and abroad. As a result, the question of whether Trump is financially compromised goes beyond the simple question of whether he or his company is directly in debt to Russian banks—something the president denies but has yet to demonstrate by releasing his tax returns. The president's myriad financial

entanglements with individuals from Russia and the former Soviet Union may provide Russia with such kompromat, especially given the substantial evidence that Trump and the Trump Organization have engaged in questionably legal practices, many of which are outlined below. (The Trump Organization has repeatedly denied, both in specific cases and in general, that it has acted illegally or unethically in its business practices.)

This does not intend to suggest that all of Trump's clients and partners from Russia and the former Soviet Union are individually connected to the Kremlin, nor that each deal is individually corrupt or connected to Russia's interference in the 2016 election. Instead, the goal is to highlight how dependent Trump's company has been on Russian money, a fact he has repeatedly denied, and to explicate how those connections appear to have laid the foundation for what occurred in 2016. As such, this explainer explores the totality of those business dealings, ranging from projects whose financing comes from sources directly linked to the Kremlin to potentially corrupt dealings in Azerbaijan and Georgia to the allegations that some of Trump's Russian and Soviet buyers and business partners have used his properties as vehicles for money laundering, all of which could have generated the type of compromising material the Russian government is known to exploit.

A NOTE ON RUSSIAN OLIGARCHS

This explainer discusses in detail Trump's various business relationships with Russian oligarchs as proxies of the Kremlin. This is because Russian oligarchs, many of whom are former Soviet officials or hold positions of power in former Soviet states where the Russian government still holds significant influence, are widely considered an extension of the Russian state. Still others are high-ranking executives at Russia's state-owned companies, such as the oil-and-gas conglomerate Rosneft or Russia's two state-run development banks, Vnesheconombank and Vneshtorgbank.

Putin has developed relationships with Russia's business elite, both individually and collectively, in which he enables their accumulation of wealth in exchange for their assistance on his political projects; as a result, they are sometimes described as Putin's "shadow cabinet." Domestically, this often entails carrying out large-scale, but ultimately unprofitable, projects on behalf of the Russian state; for example, Arkady Rotenberg, a construction magnate (and Putin's former judo partner) often considered a key member of Putin's inner circle, is widely seen as having taken on construction of a bridge connecting Russia to the Crimean peninsula as an elaborate, and extremely expensive, display of fealty to the Kremlin. These oligarchs often act as unofficial envoys of the Kremlin's foreign policy, especially in Eastern and Central Europe, where they form corrupt business relationships with elected politicians that they can then leverage toward accomplishing Russia's goals abroad. Those who publicly oppose, or simply fail to comply with, Putin's wishes often face severe financial repercussions; most famously, in 2003, Mikhail Khodorkovsky, at the time Russia's wealthiest man, was arrested for tax evasion, had his assets seized by the Russian government, and was forced to appear in court in a cage as punishment for his political opposition to Putin.

The result is a system where supposedly private citizens feel compelled to act on the government's behalf and where the line between government officials and wealthy citizens becomes purposefully blurred. As such, it is important to scrutinize Trump's business ties not only with the Kremlin proper but also with the many wealthy Russian and former Soviet individuals who participate in this dynamic—relationships that could compromise him in the same way as direct business with the Kremlin. In other words, if Trump has entered into a compromising financial relationship with Russian clients and partners—and overwhelming

evidence documented below suggests he has—those relationships may have generated compromising material not just for the individuals involved but also for the Russian government. A more thorough exploration of this dynamic can be found in the Moscow Project's February 2018 report "Cracking the Shell: Donald Trump and the Corrupting Potential of Furtive Russian Money."

THE EARLY YEARS: TRUMP BUSINESSES IN TROUBLE

Many of Trump's businesses spent the 1990s on the verge of collapse. Abraham Wallach, who became the Trump Organization's executive vice president for acquisitions in 1990, compared joining the company to "getting on the Titanic just before the women and children were moved to the lifeboats." In 1990, the Trump Organization was reportedly $3.4 billion in debt, with Trump himself liable for more than $800 million. The next year, as several of Trump's hotels and casinos reportedly accumulated millions in debt, the New Jersey Casino Control Commission concluded, "Mr. Trump cannot be considered financially stable." In 1992, Trump defaulted on the debt of his airline, Trump Shuttle, turning it over to U.S. Airways.

In Trump's own telling, his fortunes turned around in 1995, when Trump Hotels & Casino Resorts, the company through which he owned and operated many of his properties in Atlantic City and elsewhere, held an initial public offering. In truth, Trump's financial struggles continued. Contrary to Trump's own lofty predictions—he mused to *Vanity Fair*'s Edward Klein that the IPO might raise $4 billion—he only managed to raise $140 million; meanwhile, according to his tax returns from that year, which remain the only one of Trump's tax returns revealed to the public, Trump declared a loss of nearly $916 million. His businesses continued to struggle, with his casinos posting $66 million in losses by the end of 1996 and another $42 million in 1997.

As *The New York Times* uncovered in 2018, Trump almost certainly wouldn't have survived the period without the financial support of his father, Fred Trump, who not only loaned his son millions of dollars to keep his struggling businesses afloat but also helped orchestrate massive, likely illegal tax fraud schemes to hide those transactions from authorities. Unfortunately for Trump, that safety net disappeared in the late 1990s, first when Trump and his siblings officially took over the family company in 1997 and later when his father died in 1999. But Trump's financial struggles continued: his flagship companies declared bankruptcy in both 2004 and 2009, with Trump resigning from his position as head of the board of Trump Entertainment Resorts in 2009.

Compounding Trump's financial problems was the Wall Street stigma his business failures attracted. *The Guardian* has reported that, in the 1990s, "Wall Street banks, which had previously extended him credit, turned off the tap." According to *The New York Times*, bankers went so far as to coin the phrase "the Donald risk" to describe the widespread aversion to lending to Trump. In 2013, one banker told *The Atlantic*, "If a major institution in New York—whether it was a Chase or a Goldman or a law firm or something—wanted to have a building built . . . I can give you almost 100 percent assurance that Donald would not be on the list."

THE RUSSIAN-FUELED COMEBACK

So how, then, did 15 Trump-branded projects break ground between 1998 and 2012?

Given that Trump has defied decades of political tradition by assiduously refusing to release his tax returns, it's difficult to truly get to the bottom of his finances. But the public record is more than enough to demonstrate that the answer, in part, lies with Russia.

With the collapse of the Russian economy in 1998, Russian oligarchs who had made their fortunes buying up formerly state-held assets now sought to stash their money in international real estate. The Trump Organization offered an appealing haven for several reasons, ranging from its ostentatious gold-plated aesthetic to its reputation for lax reporting standards. As a result, several Trump-branded projects from 1998 onward received significant financing from sources with ties to Russia, most notably the Bayrock Group, a real estate company headquartered in Trump Tower and founded by the Kazakhstan-born former Soviet official Tevfik Arif, and Deutsche Bank, one of the few major financial institutions to still lend to Trump and which paid $630 million in penalties in 2017 for involvement in a $10 billion Russian money laundering scheme.

Russia also provided many of the buyers for Trump-branded real estate. According to a *Bloomberg* investigation into Trump World Tower, which broke ground in 1998, "a third of units sold on floors 76 through 83 by 2004 involved people or limited liability companies connected to Russia and neighboring states." Reuters, meanwhile, has reported that "at least 63 individuals with Russian passports or addresses have bought at least $98.4 million worth of property in seven Trump-branded luxury towers in southern Florida."

And the Trump Organization reportedly welcomed the clientele. For example, a 2013 article in The Nation about the influx of Russian money in Miami real estate noted that Elena Baronoff, a Russian American socialite once described on the cover of a Russian magazine as "the Russian Hand of Donald Trump," operated a real estate company out of the lobby of the city's Trump International Beach Resort that catered to Eastern European buyers. *The New Republic* has also extensively documented how the Trump Organization actively sought Russian buyers, so much so that the area around Trump Sunny Isles in Florida became known as "Little Moscow." Though these transactions are not inherently suspect, they demonstrate that the Trump Organization was sufficiently aware of its reliance on Russian money to actively cultivate relationships with Russian clients.

Some of the individual deals have attracted attention, most notably the Russian fertilizer magnate Dmitry Rybolovlev's 2008 purchase of one of Trump's mansions in Palm Beach. He paid a reported $95 million for it—$53 million more than Trump paid for it four years earlier. The transaction has received scrutiny from investigators, particularly because, though Trump justified the price increase by claiming he had "gutted the house" and spent $25 million on renovations, there were few apparent alterations. Such rapid and unexplained increases in price are frequently cited as red flags for money laundering through real estate. According to Sen. Ron Wyden (D-OR), the transaction is one of several special counsel Robert Mueller and his team are investigating for "potential money laundering or other illicit financial dealings between the president, his associates, and Russia." Rybolovlev drew additional attention for his behavior during the final months of the 2016 election, during which his private plane was spotted on separate days in Las Vegas and Charlotte within hours of Trump's arrival in each city. A spokesman for Rybolovlev dismissed the incidents as a coincidence, and Trump has denied meeting Rybolovlev; a White House official described questions about their relationship as a conspiracy theory. In November 2018, Rybolovlev was arrested in Monaco on apparently unrelated charges of corruption, to which he pleaded not guilty.

Trump SoHo, which broke ground in 2007, typifies how the Trump Organization benefited from financing coming out of Russia and the former Soviet Union. Much of the project's financing came from the Bayrock Group. Several reported funders of the project, including Arif, Tamir Sapir, and Alexander Mashkevich, hail from the former Soviet Union and have reported ties to the current Kremlin. Some have also faced allegations of corrupt and criminal behavior, ranging

from money laundering to smuggling to involvement in a prostitution ring. For example, in 2009, Sapir pleaded guilty to illegally importing animal parts. Mashkevich has been repeatedly accused of bribery and money laundering on projects in Kazakhstan, and settled a case in 1996 without admitting guilt. The same can be said for some of the property's clientele. For example, Viktor Khrapunov, who formerly served as mayor of Almaty, Kazakhstan, went on trial in July 2018 for allegedly purchasing condominiums in the building using money stolen from state coffers and laundered through a network of offshore shell companies while serving as the country's energy minister. As of this writing, the case is ongoing, and Khrapunov has denied any wrongdoing.

THE RUSSIAN CONNECTIONS

Perhaps the most notable connection emerging out of Trump SoHo involves the Russian American real estate developer Felix Sater, who formerly served as the managing director of the Bayrock Group. Sater, who served a year in jail in the 1990s for stabbing a man in the face with a margarita glass, became an FBI informant in Moscow after pleading guilty to involvement in a $40 million stock fraud scheme orchestrated by the Russian mafia; the records for the conviction have since been sealed. Sater joined the Bayrock Group in 2001 and helped secure financing for Trump SoHo, leaning heavily on sources linked to Russia. After leaving Bayrock in 2009, he retained an office in Trump Tower and received Trump-branded business cards identifying him as a "senior adviser to Donald Trump." Sater has said he had a "friendly" relationship with Trump and met with him "numerous times," although the Trump Organization has disputed his account.

Sater has been involved in at least two attempts to develop a Trump Tower Moscow. According to *The Washington Post*, the Trump Organization contracted with Bayrock to develop a high-rise in the Russian capital in 2005; it was reportedly far enough along in the process that a site was chosen before the deal ultimately fell through. More notably, Sater was involved in an effort to establish a Trump Tower Moscow during the early stages of the 2016 presidential campaign, eliciting a signed letter of intent from the Trump Organization in October 2015. In November 2015, Sater reportedly emailed Michael Cohen—his longtime friend and the Trump Organization's lawyer—about the project, writing, "I will get Putin on this program and we will get Donald elected. . . . our boy can become president of the USA and we can engineer it." The deal ultimately fell through in July 2016, but not before Cohen reportedly offered Putin the proposed building's $50 million penthouse as enticement as part of the negotiations .

Sater also provides an example of a business connection attempting to transition into the political realm. Along with the email to Cohen, which seems to suggest that Sater saw developing Trump Tower Moscow as part of a broader strategy to ensure Trump's election, Sater was involved in an attempt during the transition to influence the administration's policy on Russia. In January 2017, Sater and Cohen reportedly worked with the Ukrainian politician Andriy (sometimes transliterated Andrey or Andrii) Artemenko to deliver a policy proposal to incoming national security adviser Lt. Gen. Michael Flynn that would roll back sanctions against Russia. Under the plan, Russia would withdraw its troops from eastern Ukraine, while Ukraine would hold a referendum on whether to "lease" Crimea to Russia; in return, the United States would lift the sanctions it had placed on Russia after the 2014 invasion of Crimea. Sater has repeatedly declined to comment on the matter, and there is no indication that the administration considered or acted upon the proposal.

Trump SoHo is far from the only Trump Organization project to derive funding from questionable Russia-linked sources. Another example is the Trump International Hotel and

Tower Toronto, which in June 2017 dropped its affiliation with the brand and is now simply the Adelaide Hotel Toronto. The project, which broke ground in 2007, was so financially embattled that, as the *Toronto Star* described in October 2017, "every investor lost money on Trump Tower Toronto" except Trump himself. In 2010, facing mounting costs and a dearth of investment, the building's developer Alexander Shnaider received a sudden windfall when a then-unknown investor purchased an $850 million stake in Shnaider's steel company Zaporizhstal. In May 2017, *The Wall Street Journal* revealed the source of those funds: the Russian state-owned development bank Vnesheconombank (VEB). The Trump Organization has distanced itself from the project, claiming that, despite reports in 2012 that Trump had a minor ownership stake, the company "was not the owner, developer or seller" of the property, was not involved in the financing, and "did not hold" equity. Shnaider, meanwhile, has offered conflicting accounts as to how much of the money from VEB ended up in the project: His lawyer at first told *The Wall Street Journal* that $15 million from the sale went into the property, but Shnaider has since said he is "not able to confirm that any funds went into the Toronto project."

The Trump Organization has also pursued multiple projects in former Soviet states. *The New Yorker*'s Adam Davidson has written extensively on developments in Baku, Azerbaijan, and Batumi, Georgia, where the Trump Organization has dealt with companies and oligarchs with extensive histories of corruption and ties not only to Russian entities but also, in Azerbaijan, to the Iranian Revolutionary Guard. These projects, Davidson argues, are worrisome not only because of the specific actors involved but also because they leave the president open to accusations of abetting corruption abroad and demonstrate the Trump Organization's tendency to skimp on due diligence, which could expose Trump to prosecution under the Foreign Corrupt Practices Act.

Trump's other business practices during the 2000s also raise red flags for corruption and financial crime. His relationship with Deutsche Bank—which, as noted above, was by the late 1990s the only major financial institution willing to lend to him—was remarkably contentious. In 2008, Trump defaulted on the $640 million loan he had received from Deutche Bank in 2005 to build Trump Tower Chicago. Deutsche Bank sued Trump and was seeking an immediate $40 million. Trump then countersued a group of lenders, led by Deutsche Bank, for $3 billion, alleging that the banks had played a role in causing that year's financial crisis and were therefore responsible for Trump's inability to repay his debts. Two years later, Trump and Deutsche Bank settled—after which Deutsche Bank, to which Trump still owed hundreds of millions of dollars, went back to lending money to Trump. According to *Newsweek*, Trump "paid back Deutsche with a massive lifeline—from Deutsche" and these Deutsche Bank loans "rescued Trump after the [2008] crash." By the time Trump was elected in 2016, he reportedly owed Deutsche Bank $300 million.

That Deutsche Bank would continue to lend to Trump so soon after a contentious legal battle that stemmed from Trump's inability or unwillingness to repay his debts has raised significant suspicions about the sources of these funds. Compounding these suspicions are Deutsche Bank's ties to Russia. On January 30, 2017, the New York State Department of Financial Services fined Deutsche Bank $425 million for violating New York's anti-money laundering. The bank admitted to a massive $10 billion Russian money laundering scheme involving "mirror trades," which moved money out of Russia to the West between 2011 and 2015. The investigation by special counsel Robert S. Mueller III into possible collusion between the Trump campaign and Russia has reportedly subpoenaed records from Deutsche Bank.

Moreover, in the mid-2000s, the Trump Organization made a radical shift in its business model. For decades, Trump had built a reputation as the self-proclaimed "King of Debt," borrowing

heavily to finance his projects. That Trump was able to do so and stay financially solvent was a key part of his mystique, although, as *The New York Times* has revealed, it was more a function of his father's largesse than Trump's abilities as a businessman. However, in the mid-2000s, the Trump Organization began dealing in massive sums of cash, a move uncharacteristic not just for the company but also for large real estate developers generally. Dealing in cash can be not only risky but also difficult, as raising liquid assets for a company that deals mostly in real estate may require selling off properties, and potentially invites corruption by side-stepping due diligence and anti-money laundering requirements that loans and banks introduce. But for the Trump Organization, the decision may have actually facilitated its business practices: During the development of Trump SoHo, Eric Trump reportedly said that "the best property buyers now are Russians," who "can go around without a mortgage loan from American banks, that require income checks and they can buy apartments with cash."

For all of Trump's protestations, then, there is ample evidence that the Trump Organization has repeatedly done business with Russian investors and clients. Trump not only did not deny this fact until he began running for president but actually spoke about it frequently, boasting of the amount of Russian money that flowed through his projects in numerous interviews. So, too, did his sons Donald Trump Jr. and Eric Trump. In 2008, Trump Jr. told investors in Moscow that "Russians make up a pretty disproportionate cross-section of a lot of our assets," while Eric Trump reportedly told a golf reporter in 2014 that the Trump Organization was able to expand during the financial crisis because, "We don't rely on American banks. We have all the funding we need out of Russia."

WHY IT MATTERS

As mentioned above, Trump is not the only real estate developer to have dealings with Russian individuals and entities. Aside from the questions about the Foreign Corrupt Practices Act and Trump's repeated lies about his involvement with Russia since he began running for president, those deals wouldn't necessarily be suspicious.

But most real estate developers with extensive financial ties, and possibly debts, to a hostile foreign power do not then run for president; most presidents do not evince such unprecedented obeisance to a hostile foreign power; and most presidents do not require the appointment of a special counsel to investigate whether the president's campaign conspired with that nation's government. As a result, Trump's long history of accepting money from Russian investors and clients takes on additional significance as the beginning of his relationship with Russia and, given the allegations of corruption that swirl around Trump and his company's business dealings, appear to form the potential underpinnings for Russian collusion in the 2016 election.